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DISCLOSURE BY TRANSNATIONAL CORPORATIONS OF ENVIRONMENTAL MATTERS AT THE NATIONAL LEVEL IN ANNUAL REPORTS

Report by the UNCTAD secretariat */

Summary

Many transnational corporations (TNCs) adopt differing voluntary environmental accounting disclosure standards in their home and host countries. This report is a comparison of environmental accounting disclosures by TNCs in India, Malaysia and the Philippines as host countries of TNCs vis-à-vis the reporting by the same transnational corporations in their home countries. TNCs in the food and chemical industries were selected for study. It was found that there are considerable differences in reporting by TNCs at the local level and home country level.

*/ This report was prepared with the assistance of C. Noppeney of the Institute for Industry and the Environment at the University of St. Gallen, Switzerland.

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I. INTRODUCTION

1. This report focuses on environmental disclosures by transnational corporations. It is restricted to a comparison between the environmental reporting practices by transnational corporations in host countries (all of which are developing countries in this project) with their home countries (which are all developed countries).

A. Background and goals of the study

2. In the United Nations publication, International Accounting and Reporting Issues: 1991 Review, it was reported that a comparison in Brazil of environmental reporting by transnational corporations revealed that "...none of the German and Swiss (parent) firms disclosed anything relevant in their reports, in spite of the fact that this information is disclosed in their home countries".

3. It appeared from the above scenario that transnational corporations with operations in some countries where regulations concerning disclosure of environmental information is somewhat weak may not always disclose information locally even though the parent company may disclose this information in a consolidated format in the home country. This would appear to be because the reporting requirements in the home country are more extensive.

4. It is the primary objective of this report to examine this observation and presumption in some detail. Environmental disclosures made by transnational corporations operating in selected developing countries, namely India, Malaysia and the Philippines, were analysed. In order to allow for the necessary level of comparability between the different cases, the examples were taken from two industries (chemical and food industries). The corporations were asked to submit for analysis all environmental information which is publicly available in the home and host countries. "Publicly available information" was considered to be any information, whether it is contained within the annual report, an environmental report or is available upon special request.

B. Conceptual background

5. Corporate environmental reporting is a relatively recent phenomena in the context of environmental management and corporate communications. It is rapidly becoming a primary channel for companies to communicate their thinking, objectives, practices and achievements in the field of environmental management. However, such reporting is still at an early stage of evolution and under the voluntary leadership of a variety of enterprises around the world. In recent years approximately 150 pioneering firms have published environmental reports[1]. These reports vary considerably in terms of scope and quality. Alongside these individual company efforts, some industry associations have begun to issue guidelines on environmental reporting. For example CEFIC, the European Chemical Industry Council, has been encouraging their member companies to publish such reports as soon as possible (more than 50% of CEFIC member companies published such reports in 1993), and it has prepared guidelines to achieve desirable consistency among firms[2].

6. According to a recent survey on company environmental reporting five levels of corporate environmental disclosure can be identified[3].

(a) Stage 1: "Green Glossies", newsletters, videos, etc.; short statement in annual report;

(b) Stage 2: Special initial environmental report, often linked to a first formal policy statement;

(c) Stage 3: Annual reporting linked to the environmental management system, but more text than figures;

(d) Stage 4: Provision of full TRI-style performance data on an annual basis[4]; input-output data for service companies[5]; corporate and site reports[6]. Information is available on diskette or through online computer systems. The environmental report is referred to in the annual report;

(e) Stage 5: Sustainable development reporting. Aim: no net loss of carrying capacity; linking of environmental, economic and social aspects of corporate performance, supported by indicators of sustainability; integration of full-cost accounting in financial reporting.

C. Approach and methodology

1. Selection of the countries

7. The project focused on three host countries: India, Malaysia and the Philippines. India was selected because of its economic and political importance in South Asia. Furthermore, it was assumed that the Bhopal disaster had increased environmental awareness and sensitivity in India, especially in the chemical industry. This expectation was confirmed by an international handbook on environmental business strategy: "India's commitment to planned and controlled development and welfare state norms has helped generate concern for the environment. The mining, food processing, heavy machinery and metal fabrication industries in India are leaders in providing information on their environmental performance. Government regulations require companies to disclose in Directors' Reports information on energy conservation and the company's use of pollution control technology."[7] Malaysia and the Philippines were chosen because of their recent economic progress and their role as newly industrializing economies.

8. Since the mid 1970s all three countries have experienced increased inflows of foreign direct investment. The embassies in Switzerland of all three countries were contacted and asked for information on their regulation of environmental disclosure in their countries[8]. In the case of India local authorities in New Delhi were also contacted. No responses to the inquiries were received.

2. Selection of the industries

9. The sample of enterprises for this project was chosen from two major global industries: chemicals and food industries. Both are of notable economic and ecological importance. The chemical industry was selected because it has a significant impact upon the environment and therefore enterprises are more likely to disclose environmental information. The food industry was chosen for two reasons: firstly, it was assumed that the production processes are very similar, irrespective of the national cultural or legal framework; secondly, the food industry was regarded as closely related to human health issues. Therefore, it was felt that there were strong incentives from the marketplace to disclose environmental information.

3. Selection of the corporations

10. Twenty-six transnational corporations were contacted: 18 companies in the chemical industry and 8 companies were in the food industry[9]. It is hardly possible to make generalizations beyond the sample although the findings are conclusive. Moreover, the sample was likely to be biased because the firms in the sample were regarded as the leading firms with respect to environmental managerial performance.

4. The questionnaire[10]

11. The questionnaire was designed to capture the type and extent of environmental disclosures made in both the home countries and the host countries. It was sent to the subsidiaries in the host countries. The survey instrument was influenced by the results of United Nations publication, Environmental Disclosures: International Survey of Corporate Reporting Practices

(E/C.10/AC.3/1994/4) and the proposals made in the CEFIC guidelines on environmental reporting for the European chemical industry.

12. The questionnaire consisted of four sections. In the first section the subsidiary was asked in a very general way about publications issued at the local level. Six examples were given: an annual report, an environmental section as part of the annual report, a separate environmental report, press releases on environmental issues, an environmental policy statement, and leaflets on environmental issues. Furthermore, the respondent was encouraged to mention everything else relevant to this topic.

13. The second section focused on the relationship between the disclosures at the corporate and subsidiary levels. It was designed to determine how information of the local subsidiary in the host country is disclosed at the corporate level in the home country. It was assumed that information concerning environmental matters is often disclosed in a consolidated format in the home country where reporting is more extensive.

14. The third section provided a structured overview of all kinds of environmental disclosures. Six major categories of different types of information were mentioned and illustrated by examples. The respondent was asked to mark every type of information which was publicly available in the host country, and to submit a concrete example. The types of information listed in the questionnaire were: environmental policy; environmental management; safety; economic and financial information; life-cycle of products and services; and, environmental effects of production activities (data).

15. In the fourth section the respondent was asked to identify the factors which could account for the current environmental reporting practice. Five factors were listed: legal framework; corporate environmental responsibility of the subsidiary; environmental policy of the parent company; pressure by environmental groups or others such as stakeholders; and pressure from the marketplace. The questionnaire concluded with a strong encouragement to contact the researcher to express further suggestions or questions.

5. Methodology

16. Initially, the headquarters of 28 transnational corporations in seven countries were contacted. They were requested to send the fax numbers of the subsidiaries in the three host countries and a copy of their most recent annual and environmental report. Twenty-four companies provided some telefax numbers and the publications requested or promised to provide the required information from their subsidiaries in the three countries. Four companies did not respond to the requests.

17. Secondly, a letter explaining the research project and the questionnaire were sent to 54 subsidiaries in the three countries. Furthermore, a number of responses were reported directly by the parent company.

18. Initially, the response rate from the developing countries was poor which necessitated follow-up action with both the subsidiaries and parent companies. By the end of project research period responses from 36 subsidiaries within the host countries were received. Nineteen were sent directly from the subsidiary in the host country and 17 were sent by their respective parent company. Of those responding, 11 filled out the questionnaire whereas the remaining 25 preferred to send a letter or informative material only. These 36 responses constitute the sample analysed in this report.

Table 1. Subsidiaries contacted

	India	Malaysia	Philippines	Total
Chemical Industry	15 (16)[11]	15 (16)	14 (15)	44 (47)
Food Industry	3	4	3	10
Total	18	19	17	54 (57)

Table 2. Details of the country and industry of the respondents

	India	Malaysia	Philippines	Total
Chemical Industry	11	8	10	29
Food Industry	2	2	3	7
Total	13	10	13	36

II. SURVEY RESULTS

19. The general finding from this project was that environmental disclosures in the host countries is very different from those in the home countries. The overall quantity and quality of the responses was disappointing. In general, environmental disclosure in the home country has reached stages 3 and 4 of the above typology whereas any environmental disclosure in the three countries sampled rarely covers aspects beyond stage 2.

20. Concerning the sample, two general conclusions can be drawn. The first refers to differences between the two industries. The overall reaction from the food industry was more reserved than the responses from the chemicals industry. In summary, environmental disclosures in the food industry within the host countries could not be evaluated with the exception of replies from Nestlé (India, Malaysia and Philippines) and Pepsi-Cola International (Philippines)[12]. On the other hand, chemical companies could be expected to present some sort of general commitment to environmental issues (e.g. environmental policy statement). Therefore, a corporation from the chemical industry is more likely to have already taken first steps in environmental disclosure and published at least an environmental policy statement.

21. The second general finding concerns geographical differences between the three host countries. Subsidiaries in India tended to disclose more information than those in the two other host countries. The following Indian regulations require disclosure of information regarding conservation of energy within the annual report of the local subsidiaries: the Indian Companies Act, 1956 when read with Rule 2 of the Companies Rules, 1988 (Disclosure of Particulars in the Report of Board of Directors) and Section 217 (2-A) of the Companies Rules, 1975 (Particulars of Employees), as amended. Details of the total power and fuel consumption as well as statistics for the various segments (electricity, coal, furnace oil, other generation) are required[13]. Moreover, some Indian companies provide details on energy consumption per unit of production. Assuming that the product mix is constant over a certain period, these figures illustrate the change

(improvement or deterioration) of production efficiency as far as energy is concerned.

22. This legal obligation may have given rise to further environmental disclosures within the framework of conventional financial reporting (annual reports): in the case of Nestlé India and Hindustan Lever Limited a supplementary section on the concern for the environment was included. These sections provide information on various projects and recent environmental improvements.

23. As a consequence of the limited sample size obtained, the following findings refer to single cases:

(a) Detailed reports providing full TRI-style performance data have become very common for the production sites in the home countries. Nevertheless only one company submitted material which can be regarded as an environmental site report in the narrow sense of the term[14]. The site report of Tioxide (Malaysia) Sdn Bhd, a subsidiary of ICI, consists of seven pages and informs about the following topics:

(i) environmental policy;

(ii) the environmental risks of the production process;

(iii) total waste (data for different categories);

(iv) by-products;

(v) environmental management systems;

(vi) emissions inventory for emissions to air, discharges to water and wastes to land (20 substances);

(vii) energy use and carbon dioxide emissions;

(viii) complaints and community relations.

(b) Several companies submitted explicit environmental policy statements or material which can be interpreted as an environmental policy statement published by their subsidiaries in the host countries[15]. In some cases these statements were translations (English as well local languages) of their corporate policy statements as they had been adopted and reported in the home countries. Some policy statements seemed to be adapted to local needs in the three host countries. In addition to appearing in separate publications, these environmental policy statements were sometimes also integrated with the local annual reports.

(c) In the case of Ciba-Geigy it was obvious that the type of environmental disclosure at a particular site correlates with the activities carried out at the location. For example, in Malaysia there are no manufacturing facilities. Consequently, local communication tends to be geared more towards involvement in educational and community activities, employee information (which is also available to the public), as well as regular communication with government offices. Similar characteristics apply to the site in the Philippines where some pharmaceuticals production takes place. On the contrary, the facilities in India are much larger and have more production and the information available to the public is structured accordingly. It consists of (among other items):

(i) An "Our Vision" brochure which is for both internal and external use;

(ii) "Health and Safety Policy" and "Energy Policy" for India, again for both internal and external information;

(iii) A brochure about the Santa Monica works which provides information about the business operations as well as activities related to environmental protection, safety and health;

(iv) The magazine of the Central Pollution Control Board in New Delhi, which features a photograph of the neutralization system at the Santa Monica site;

(v) Other information if requested. It is Ciba-Geigy policy worldwide to provide such information unless it is of a confidential nature.

24. In a number of cases environmental information is available on special request. For example, detailed economic and financial information was disclosed in the questionnaires returned by six firms[16]. According to Bayer Philippines the figures given were not publicly available but may be requested from the Philippine Fertilizer and Pesticide Authority.

25. As far as information on safety and accidents at work is concerned, Hoechst reveals detailed figures for all three host countries in a leaflet published in the home country (Germany). The leaflet is in the German language and has not yet been translated. It covers all accidents at work worldwide listed by country level.

III. CONCLUSIONS

26. A number of companies incorporate a pledge to worldwide environmental reporting in their corporate report. Typical phrases include:

(a) "This report concerns all Rhone-Poulenc businesses worldwide. Every plant must also publish its own year-end results for the benefit of neighbouring communities, as well as its objectives for the following year"[17];

(b) "Furthermore, all plants (high risk or not) are informing the public about the environmental impact of their activities"[18];

(c) "It is essential that Monsanto continue to be fully and publicly accountable ... We chose to disclose Monsanto's data on emissions and releases directly to our communities, ... environmentalists and the media."[19]

27. However, the findings of this report suggest that in some instances companies may not always disclose information on a consistent basis world wide. It must be kept in mind that the whole concept of environmental disclosure is a recent development. It was not until 1990 that the first environmental reports were published and only in 1992 did "Agenda 21", the core document that emerged from the 1992 United Nations Conference on Environment and Development (UNCED), call on businesses and industry to "report annually on their environmental records, as well as on their use of energy and natural resources". Taking these aspects into account, it seems to be reasonable and obvious that a comprehensive environmental reporting system has only recently been introduced in the home countries and the worldwide implementation has not yet been completed.

28. The difference between the two industry sectors studied points to public exposure as the key factor accounting for different reporting practices. Of course, the legal framework in each country also influences corporate environmental reporting practices. But in the light of the large number of voluntary disclosures it seems to be rather implausible to regard legal forces as a key factor for more comprehensive environmental disclosure. Instead of more stringent environmental regulations a growing environmental concern of the public in the three host countries may contribute to real progress in future environmental disclosures.

Table 3. Subsidiaries contacted (chemical industry)

Chemical Industry	Addresses of subsidiaries were provided?	Environmental report from home country available?	Subsidiaries contacted	Subsidiaries responding	Subsidiaries responding with respect to environmental disclosure	Subsidiaries with some sort of environmental disclosure
AKZO	YES	YES	2	0	0	0
BASF	YES	YES	3	2	2	1
BAYER	YES	YES	3	1	1	0
BP	YES	YES	3	0	0	0
CIBA GEIGY	complete information was provided by the parent company in Switzerland	complete information was provided by the parent company in Switzerland	complete information was provided by the parent company in Switzerland	complete information was provided by the parent company in Switzerland	3 (complete information was provided by the parent company in Switzerland)	3 (complete information was provided by the parent company in Switzerland)
DOW	YES	YES (including European site reports)	3	3	3	3
DU PONT	YES	YES	3	0	0	0
ESSO	NO	NO	0	0	0	0
HENKEL	NO	YES	0	0	The parent company responded to our inquiry	0
HOECHST	YES	YES	3	3	3	3
ICI	YES	YES	3	3	3	2
MONSANTO	YES	YES	3	3	0	0

NORSK HYDRO	YES	YES	3	1	1	0
PROCTER & GAMBLE	YES	YES	3	0	0	0
RHONE-POULENC	YES	YES	3	1	1	0
SHELL	YES	YES	3	1	1	0
UNILEVER	YES	YES	3	0	0	0
UNION CARBIDE	YES	YES	3	2	2	1

Table 4. Subsidiaries contacted (food industry)

Food Industry	Addresses of subsidiaries were provided?	Environmental report from home country available?	Subsidiaries contacted	Subsidiaries responding	Subsidiaries responding with respect to environmental disclosure	Subsidiaries with some sort of environmental disclosure
CADBURY SCHWEPPES	NO	NO	0	0	0	0
COCA COLA	NO	NO	0	0	0	0
GRAND METROPOLITAN	YES	YES	1	0	0	0
HEINEKEN	YES	YES	2	1	1	0
KRAFT GENERAL FOODS	YES	YES	1	1	1	1
MC DONALDS	NO	NO	0	0	0	0
NESTLE	YES (complete information was provided by parent company in Switzerland)	YES (complete information was provided by parent company in Switzerland)	3 (complete information was provided by parent company in Switzerland)	3 (complete information was provided by parent company in Switzerland)	3 (complete information was provided by parent company in Switzerland)	3 (complete information was provided by parent company in Switzerland)
PEPSI	YES	YES	3	2	2	1

Table 5. Survey results (chemical industry)

Chemical Industry	Number of cases	Cases reported by the headquarters	Cases reported by the subsidiary	Returned questionnaires
AKZO	0	0	0	0
BASF	2	0	2	0
BAYER	3	2	1	1
BP	0	0	0	0
CIBA GEIGY	3	3	0	0
DOW	3	3	0	0
DU PONT	0	0	0	0
ESSO	0	0	0	0
HENKEL	2	2	0	0
HOECHST	3	0	3	3
ICI	3	1	2	1
MONSANTO	3	3	0	0
NORSK HYDRO	1	0	1	0
PROCTER & GAMBLE	1	0	1	0
RHONE-POULENC	1	0	1	0
SHELL	1	0	1	1
UNILEVER	1	0	1	1

UNION CARBIDE	2	0	2	1

Table 6. Survey results (food industry)

Food Industry	Number of cases	Cases reported by the headquarters	Cases reported by the subsidiary	Returned questionnaires
CADBURY SCHW-EPPES	0	0	0	0
COCA COLA	0	0	0	0
GRAND METRO-POLITAN	0	0	0	0
HEINEKEN	1	0	1	1
KRAFT GENERAL FOODS	1	0	1	0
MC DONALDS	0	0	0	0
NESTLE	3	3	0	2
PEPSI	2	0	2	0

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Annex I
QUESTIONNAIRE ON ENVIRONMENTAL DISCLOSURES

1. Do you publish at a subsidiary level:

- an annual report?
- a section on environmental issues as part of your annual report?
- a separate environmental report?
- press releases on environmental issues?
- leaflets on environmental issues?
- an environmental policy statement?
- anything else (please explain)?

2. Is your environmental information (data, expenditures etc.) integrated into a corporate environmental report of the corporate annual report of your parent company?

3. What types of environmental information are publicly available? Please send us an example.

a) Environmental policy

- View on environmental demands
- Principles
- Targets (qualitative or quantitative objectives)

b) Environmental management

- Environmental management systems
- Major programmes
- Environmental audits
- Human resources, training and educations
- Environmental officer and health safety staff

c) Safety

- Accidents
- Injuries
- Risks/environmental risk assessment
- Emergency preparedness
- Lost working days

d) Economic and financial information

- Total expenditures
- Capital expenditures
- Operating costs
- Remedial expenditures
- Research and development expenditures
- Liabilities

e) Environmental life-cycle of products and services

- Energy
- Resources
- Emissions
- Waste

f) Environmental effect of production activities (data)

- Energy generation and consumption
- Resource consumption data
- Emissions data

- Waste and by-products

4. What factors do account for your environmental reporting practice?

- The legal framework in your host country?
- The corporate environmental responsibility of the subsidiary?
- The environmental policy of your parent company?
- Pressure by environmental groups of other stakeholders?
- Pressure from the marketplace?
- Other factors (please explain)?

In addition to this questionnaire we would like to receive samples of your environmental reporting.

Annex II

PROPOSED COMMON STRUCTURE FOR SITES ENVIRONMENT REPORTS PREPARED BY THE EUROPEAN CHEMICAL INDUSTRY COUNCIL (CEFIC)

When environment reports are established or individual sites of a company, it is recommended that they be drafted along the following headings:

1. Forward

- Site manager address
- Company environment policy
- Company environmental objectives (medium-long term)

2. Site description

- Main units, main products
- Site put into perspective
  - usage of products
  - economic contributions and employment
  - relations with authorities and local community
- Environmental situation: local conditions of air, water etc. in the neighbourhood, sensitive areas, etc.
- Legal requirements: permits, emission limit values, etc.
- Controlling authorities (national, local etc.)

3. Environmental management

- Structure (human resources and organisational)
- Programmes and objectives
- Environmental protection techniques (water treatment, waste incinerator, waste minimization, etc.)
- Integrated approach (recycling and new technologies)
- Monitoring techniques/systems (data measured/calculated/estimated)
- Emergency plan

4. Data (with comparison with data on previous years)

- Emission data
- Selected details (noise, odour etc.)
- Health and safety data
- Complaints (optional)
- Spending on environmental protection

5. Communications

- Community relations
- Open days

6. General comments

7. Contact people

Note: Information should be adopted to site specifications and local expectations.

Notes

1. According to a recent survey by a German research team 127 companies have published an environmental report (Clausen/et.al. (1993), p. 10). A recent report by UNEP evaluates the environmental reports of 100 environmental reporting pioneers (UNEP Industry and Environment Program (1994), p. 5).

2. CEFIC (1993).

3. UNEP Industry and Environment Program (1994) p. 28.

4. TRI stands for Toxic Release Inventory. In the United States companies report annually certain TRI pollution data for more than 300 chemicals.

5. Environmental reports at this stage cover the range of substances going through the entire production process (from the input to the output).

6. It is crucial to distinguish between site and corporate-wide reporting. A site report deals with the environmental effects of a particular production site, whereas a corporate environmental report aggregates the information of a number of sites at the corporate level.

7. IISD (1992), p. B91.

8. cf. Annex I.

9. Tables 3 and 4 provide information about the selected transnational corporations.

10. cf. Annex II.

11. This number includes the cases directly reported by the parent company.

12. There were three other subsidaries responding to the inquiry but none of them submitted any information on environmental disclosures. In the case of Kraft General Foods Philippines the response only referred to the very general information previously submitted by the parent company. For Pepsi-Cola, the results are significant: Pepsi Cola International (Philippines) submitted a wide range of information: the environmental effect of production activities (wastewater characteristics), capital expenditures on wastewater treatent, environmental policies and environmental management systems including goals and action plans. In contrast to Pepsi Cola International (Philippines), the Indian branch, Pepsi Foods Limited in New Dehli, reported that the "...activities in which [they are] presently engaged [are] of a non-polluting nature." For this reason they "...do not publish any report on environmental issues/information." The third case comes from a subsidary of Heineken that stated that the survey did not apply to their company.

13. This is the legal norm for all annual reports filed with the Indian government. Consequently a comparable section on the conservation of energy was available from BASF India Limited, Bayer (India) Limited, Hoechst India Limited, Nestlé India Limited and Hindustan Lever Limited.

14. A comprehensive environmental site report should provide a full picture of its environmental impact. A structure coming up to this expectation was proposed by the European Chemical Industry Council (CEFIC) in June 1993 (cf. Annex II).

15. Seven responses were received which included at least aspects of an environmental policy statement: Dow Pacific, answering the inquiry to their offices in the three host countries, sent an English version of their corporate environmental policy; the Indian and Malaysian subsidaries of ICI PLC submitted an environmental policy statement published by the local subsidaries. The same occurred for Ciba-Geigy India, Hoechst Philippines Inc., Hindustan Lever Ltd. and Nestlé (Malaysia).

16. Hoechst India, Hoechst Malaysia, Hoechst Philippines, ICI India, Nestlé India, and Union Carbide Philippines.

17. Rhône-Poulenc (1993), p. 3.

18. Rhône-Poulenc (1993), p. 24.

19. Monsanto (1993), p. 3.